

STATE OF WASHINGTON

THIRTY-SEVENTH REPORT

OF

Washington State Liquor Control
Board



July 1, 1969 through June 30, 1970

**DEFENDANT'S
EXHIBIT**

CASE
NO. C04-0360P

EXHIBIT
NO. 450

TX450-001

Resp to Costco RFP
5218

sales by the state and commercial outlets of 6.6 million gallons of wine in fiscal 1970, an increase of 2.3 million gallons, or 52.36 percent, over the previous year.

Wine Outsellings Spirituous Liquor

Fiscal 1970 was the first year since fiscal 1943 that the volume of wine sold in Washington exceeded the volume of spirituous liquor, 6.6 million to 5.9 million gallons.

The overall increase in wine sales was attributed to the 1969 law, which made wine more readily available in thousands of retail outlets, and to the general decline in the economy which prompted some consumers to purchase less expensive wines in lieu of higher priced spirituous liquors.

Sales of spirituous liquors were up 3.64 percent to a total of 5.9 million gallons in fiscal 1970, as compared to an increase of 6.57 percent in fiscal 1969 over fiscal 1968.

Sales of beer and other malt beverages were up 5.52 percent, excluding military sales, to 64.7 million gallons in fiscal 1970.

Per Capita Consumption Up

Washington residents bought 77.2 million gallons of all types of alcoholic beverages from state liquor stores and agencies and licensed commercial outlets during the year ended June 30, 1970, an increase of 5.9 million gallons over the previous 12 month period, excluding sales of beer and wine on military establishments.

Based on a population of 3,373,366 persons, the total sales amounted to a per capita consumption of all alcoholic beverages of 22.89 gallons in fiscal 1970, as compared to 21.21 gallons in 1969, when the population was estimated at 3,365,000 persons, a 7.92 percent increase in per capita consumption, excluding sales of beer and wine on military establishments.

New Rules

Numerous rules were adopted by the board during fiscal 1970, as reported in the section prepared by the legal division.

Generally, the changes brought liquor board rules into conformity with laws enacted by the 1969 Legislature authorizing sale of wine through licensed distributors; permitting people to drink while standing; letting women sit at bars in cocktail lounges; eliminating a requirement that the interior of taverns be visible from the street; authorizing minors to sell beer or wine for off-premises consumption under certain conditions, and letting minors be employed as professional musicians at licensed premises under certain conditions.

Stores Improved, Security Program Established

The board continued to improve the state liquor stores, adding eight self-service outlets by conversion of existing stores or agencies and by the opening of one new outlet. This gave the state 83 self-service outlets out of a total of 109 retail stores. In addition, there were 164 state liquor agencies in smaller communities throughout the state.

A security unit was established within the Stores and Agencies Division, and, in a separate action, the board adopted a security policy covering all of its employees, as outlined in the section of the report covering the personnel division.

Regulation (21) was amended to eliminate the prohibition against consuming liquor while standing, and to eliminate the requirement that women be seated at tables in class H licensed premises. The amended regulation retained the prohibition against retail licensees providing "drive-in" or "curb" service.

Regulation (22) was amended to eliminate the prohibition against persons under 21 years of age from selling any beer or wine for off-premises consumption. The amended regulation retained the prohibition that persons under 21 years of age cannot be employed in any service in connection with the sale, handling or serving of any liquor in any establishment licensed to sell liquor for consumption on the premises.

Regulation (22.5), authorizing employment of professional minor musicians, was adopted to implement provisions of Chapter 250, Laws of 1969, ex. ses. (RCW 68.44.315).

Regulation (26) was amended to eliminate a requirement that a decal stamp must be affixed to every bottle of spirituous liquor the board sells to class H licensees. The amendment was promulgated by the board as an emergency rule as the supply of stamps was almost exhausted.

Regulation (37) was amended to eliminate a requirement that "in transit" stamps be affixed to packages containing beer sold and delivered to an authorized representative of a federal military reservation for use within the confines of such military reservation.

Regulation (64) was amended to modify quality standards under the new legislative provisions relating to the sale and distribution of wine. This amended regulation was adopted as an emergency regulation and was later incorporated in the permanent rules.

Reference was made in the 36th annual report to the adoption of a comprehensive series of wine regulations on an emergency basis effective July 1, 1969, in order to comply with the new wine law which went into effect in that date. The new regulations covered items relating to licensing, wine price posting, standards of identity, quality standards, and other items pertaining to various aspects of the wine industry. Subsequently, on August 7, 1969, the Board promulgated the emergency wine regulations as permanent rules. The new and amended regulations pertaining to wine are as follows: Rule (32) Retail Licensees; Rules (57) through (83), Domestic Wineries, Wine Wholesalers, Wine Importers, and (Wine) Certificate of Approval Holders; Rules (89) through (98) Liquor Importers, Public Storage Warehouses and Importation of Liquor.

ACCOUNTING DIVISION

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Receipts from liquor sales totaled \$158,741,079.59 in fiscal year 1970, an increase of 1.09 percent over fiscal 1969. License fees were up \$164,605.44 or 8.24 percent, while receipts from the beer tax and wine tax increased \$70,724.95. The increase in the gallonage tax on wine was 170.34 percent as result of legislation which allowed out-of-state wines to be distributed directly through wholesale channels for the first time. The board collected wine tax of ten cents per gallon on these sales.

Total receipts of the Liquor Control Board from all sources were \$164,772,133.89 in fiscal year ended June 30, 1970. This was an increase of \$2,325,499.22 or 1.43 percent over fiscal 1969.

Net profit for the fiscal year 1970 totaled \$31,163,120.31 and sales taxes collected totaled \$32,731,298.36. Collectively this was \$249,309.46 or .39 percent greater than fiscal 1969.

Budget

The 1969 legislature appropriated \$26,138,147.00 for administrative expenses of the board during the 1969-1971 biennium. At the end of the first year of the biennium \$11,710,778.62 had been expended leaving an unexpended balance of \$14,427,368.38 for the remainder of the biennium. The 1969 legislature also appropriated \$2,936,000.00 for construction of a major addition to the board's central warehouse in Seattle, Washington. The physical construction has now been delayed until the 1971-1973 biennium; however, architectural and engineering costs of \$106,358.54 were incurred in fiscal year 1970. Both of the above appropriations were from the Liquor Revolving Fund.

ADVERTISING CONTROL

Changes Proposed in Advertisement Rules

The continued study of existing liquor advertising rules, regulations and guidelines resulted in a series of recommended changes to bring the rules and regulations into general conformity with the *Uniform Standards for Advertising of Alcoholic Beverages in Newspapers and Magazines* which standards were contained in a 1963 official study and report published by the Joint Committee of the States to Study Alcoholic Beverage Laws, 1000 Connecticut Avenue, N.W., Washington, D.C., 20036. Copies of the board's proposed changes were forwarded to licensee associations, advertising media groups, Alcoholic Problems Association and other interested persons and groups for review prior to board consideration at a public hearing during the ensuing 1970-71 fiscal year.

Trade Names

Upon review of a long standing policy prohibiting use of certain words in trade names, such as pub, barrel, pump, rail, the board determined that such words have attained a common usage and, therefore, no longer are considered objectionable for use in such trade names.

BEER AND WINE DIVISION

New Wine Law

The 1969-70 fiscal period was the first year of operation under provisions of the so-called "wine bill" enacted by the 41st Legislature. The law, which went into effect July 1, 1969, authorized holders of appropriate licenses to import and sell wine at wholesale directly to retail licensees. Direct importation and original sale of out-of-state wine was formerly limited by law to the Liquor Control Board.

Functioning under emergency regulations adopted by the board in June, 1969, the first wine wholesale price postings were filed in July and whole-

salers began deliveries of approved items to retail licensees for August 1 sales to consumers. Permanent rules were adopted by the board August 1, 1969, and became effective September 8.

During the first few months of the fiscal year, the board was deluged with wine samples and labels submitted by producers and suppliers for certification. The initial volume of wine shipments into the state reflected large acquisitions by importers and wholesalers to stock warehouse inventories. This accelerated traffic leveled off to a more realistic pace later in the fiscal period, as the market stabilized.

Approximately 2500 wines are currently certified for sale in the state, including about 1200 foreign imports. The few wines which initially failed to meet product and/or labeling requirements were in most instances resubmitted in corrected form and nearly all were subsequently approved.

The new wine legislation in its first year had a distinctly adverse impact on Washington wineries, whose sales decreased 31.7 percent in comparison with the previous year. The local producers sold 18.6 percent of the wine marketed in the state during fiscal 1970, compared to 41.9 percent in fiscal 1969. Coincidentally, wine sales by the board's stores and agencies were 34.5 percent less in 1969-70 than in the prior year.

Wine Sales and Production

Sales of out-of-state wine to licensed importers and wholesalers, plus retail sales by the board, during fiscal 1970, when compared with out-of-state wine sales which were confined to the board the previous year, show a dramatic increase of 115 percent. An unknown amount of the sales to importers and wholesalers was to establish and maintain warehouse inventories. The aggregate quantity of all wine, including out-of-state wine and Washington wine, sold to importers and wholesalers, and sales by the board, amounted to an increase of about 53.6 percent in fiscal 1970 over last year's collective sales.

Sales of Washington-produced wine within the state in fiscal 1970 totaled 1,242,844.80 gallons, a decrease of 576,865.70 gallons, or 31.7 percent, compared to the previous year when sales reached 1,819,310.50 gallons. Local wineries exported 80,934.40 gallons of wine in the current report period, slightly less than the fiscal 1969 exports of 84,890 gallons. Based on available statistics, Washington wineries produced 1,871,758.20 gallons during the year, a decrease of 820,165.60 gallons from the preceding year.

Sales of out-of-state wine to licensed state importers amounted to 3,778,163.30 gallons, including 199,741.29 gallons of wine produced outside of the United States. This compared with 2,519,311 gallons of out-of-state wine, including approximately 129,000 gallons of foreign wine sold by the board in fiscal 1969.

The collective gallonage of taxable wines sold by Washington wineries and out-of-state suppliers to licensed wholesalers and importers, plus sales by the Liquor Control Board, amounted to a total of 6,659,728.40 gallons in the 1969-70 fiscal year. This compared with 4,338,622 gallons sold by Washington wineries within the state plus sales by the board in fiscal 1969.

Wine Taxes

The state gallonage tax, computed at the rate of 10 cents a gallon, produced \$489,765.72 in revenue during fiscal 1970. Gallonage tax collec-

tions in fiscal 1969 amounted to \$181,165.68, but the tax was levied solely on Washington wines at that time. The newly established 26 percent retail sales tax on wines was in effect in fiscal 1970. From this source the board collected \$2,027,919.55 on sales through the state stores and agencies. As provided by law, the sales tax was remitted to the State Department of Revenue. An additional \$3,419,727 was collected by the Department of Revenue from licensed wholesalers.

Wine Licenses Issued

Eight domestic wineries were licensed in fiscal 1970, one less than during the preceding year. Six of the wineries also held distiller licenses. A total of 146 firms were licensed as wine wholesalers, 20 more than in fiscal 1969. The new wine law created two additional classes of licenses—(1) certificate of approval to cover United States wineries located outside of Washington, or state importers of foreign manufactured wines, designated 23-M, and (2) state wine importer's license, designated 23-J. Sixty-four such certificates of approval were granted, and 138 importer licenses, including 14 to common carriers, were issued during the year.

Beer Sales and Production

In fiscal 1970, for the first time in a comparable 12-month period, beer sales within the state (exclusive of sales to military installations) exceeded two million barrels. The total of 2,084,343 barrels was 5.5 percent greater than similar taxpaid sales of the previous year. Washington brewers continued to dominate the state market, producing 75 percent of the beer sold here.

Export sale of Washington-produced beer showed a healthy increase of 242,614 barrels during the current year over fiscal 1969. Approximately 66 percent of the beer manufactured in Washington was exported from the state.

For the fiscal year 1969-70, total beer sales within the state, including tax-exempt sales to federal military outlets, amounted to 2,154,303.98 barrels, an increase of 4.77 percent over the 2,056,180.67 barrels sold the previous year. Washington breweries sold 1,616,707.52 barrels in the state compared to 1,467,377.81 barrels marketed in fiscal 1969. Out-of-state breweries sold 537,596.41 barrels in the current year, an increase over the prior year's figure of 507,672.62 barrels. Exports of Washington beer amounted to 3,840,944.37 barrels, an increase of 242,614.42 barrels over the 3,597,929.95 barrels sold out-of-state last year.

Beer Taxes

The state tax on malt beverages (\$1.00 per barrel on sales in kegs, and \$1.50 per barrel on sales in bottles and cans) totaled \$2,882,378.29 in fiscal 1970, compared to \$2,720,253.38 in the previous 12-month period.

Beer Licenses Issued

Five breweries were licensed in the state in the current fiscal year, the same number as last year. A total of 159 beer wholesale licenses were issued, an increase of three over fiscal 1969. Beer importer licenses were granted to 114 firms, three more than in the prior year. Thirty-three certificates of approval were issued to out-of-state breweries and importers of foreign beer, compared to 20 in 1968-69, when certificates did not apply to such importers.